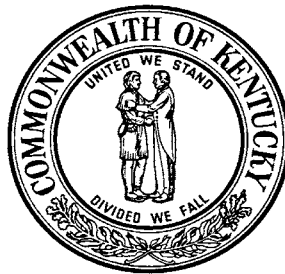


**REPORT OF THE AUDIT OF THE
MENIFEE COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

July 10, 2001



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MENIFEE COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES

July 10, 2001

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2000 Taxes for Menifee County Sheriff as of July 10, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected net taxes of \$811,556 for the districts for 2000 taxes. The Sheriff distributed taxes of \$776,531 to the districts for 2000 Taxes. Taxes of \$3,104 are due to the districts from the Sheriff and refunds of \$52 are due to the Sheriff from the taxing districts.

Report Comments:

- Lacks Adequate Segregation Of Duties

Deposits:

On January 11, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$6,649 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Hershell Sexton, Menifee County Judge/Executive
Honorable Rodney Coffey, Menifee County Sheriff
Members of the Menifee County Fiscal Court

Independent Auditor's Report

We have audited the Menifee County Sheriff's Settlement - 2000 Taxes as of July 10, 2001. This tax settlement is the responsibility of the Menifee County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Menifee County Sheriff's taxes charged, credited, and paid as of July 10, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Hershell Sexton, Menifee County Judge/Executive

Honorable Rodney Coffey, Menifee County Sheriff

Members of the Menifee County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment.

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
September 13, 2002

MENIFEE COUNTY
 RODNEY COFFEY, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

July 10, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 106,911	\$ 191,337	\$ 355,063	\$ 138,298
Tangible Personal Property	7,531	13,245	20,359	11,132
Intangible Personal Property				5,285
Fire Protection	1,496			
Franchise Corporation	16,112	15,955	45,745	
Penalties	1,213	2,153	3,987	1,569
Adjusted to Sheriff's Receipt	(515)	(551)	(1,663)	(644)
Gross Chargeable to Sheriff	<u>\$ 132,748</u>	<u>\$ 222,139</u>	<u>\$ 423,491</u>	<u>\$ 155,640</u>
<u>Credits</u>				
Exonerations	\$ 1,546	\$ 2,787	\$ 5,134	\$ 2,000
Discounts	1,408	2,478	4,518	1,905
Delinquents:				
Real Estate	12,095	21,691	39,950	15,561
Tangible Personal Property	187	328	505	693
Intangible Personal Property				636
Uncollected Franchise	<u>1,679</u>	<u>1,859</u>	<u>5,502</u>	
Total Credits	<u>\$ 16,915</u>	<u>\$ 29,143</u>	<u>\$ 55,609</u>	<u>\$ 20,795</u>
Net Tax Yield	\$ 115,833	\$ 192,996	\$ 367,882	\$ 134,845
Less: Commissions *	<u>5,210</u>	<u>6,031</u>	<u>14,715</u>	<u>6,018</u>
Net Taxes Due	\$ 110,623	\$ 186,965	\$ 353,167	\$ 128,827
Taxes Paid	110,448	184,565	352,690	128,828
Penalty (KRS 134.300(3))				<u>1</u>
Due Districts		**		
as of Completion of Fieldwork	<u>\$ 175</u>	<u>\$ 2,400</u>	<u>\$ 477</u>	<u>\$ 0</u>

MENIFEE COUNTY
 RODNEY COFFEY, SHERIFF
 SHERIFF'S SETTLEMENT - 2000 TAXES
 July 10, 2001
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	366,852
4% on	\$	367,882
1% on	\$	66,822

** Special Taxing Districts:

Library District	\$	54
Health District		52
Extension District		52
Soil Conservation District		(52)
Watershed District		6
Fire District		<u>2,288</u>
Due Districts (Refund Due Sheriff)	\$	<u><u>2,400</u></u>

The accompanying notes are an integral part of the financial statement.

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENT

July 10, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of July 10, 2001, the bank balances were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bonds which named the Sheriff as beneficiary/obligee on the bonds. However, on January 11, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$6,649 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENT
July 10, 2001
(Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official on January 11, 2001.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 450,000
Insured by the Federal Deposit Insurance Corporation	100,000
Uncollateralized and uninsured	<u>6,649</u>
Total	<u>\$ 556,649</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 20, 2000 through April 30, 2001.

Note 4. Interest Income

The Menifee County Sheriff earned \$1,201 as interest income on 2000 taxes. As of August 30, 2002, the Sheriff owes \$519 in interest to the school district and \$682 in interest to his fee account.

Note 5. Advertising Costs And Fees

The Menifee County Sheriff collected \$339 of advertising costs and \$565 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

MENIFEE COUNTY
RODNEY COFFEY, SHERIFF
COMMENT AND RECOMMENDATION

July 10, 2001

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash recounted and deposited by the Sheriff
- Reconciliation of reports to source documents by the Sheriff
- All disbursement checks are to be signed by two people and one must be the Sheriff
- The Sheriff examines tax distribution checks prepared by another employee and distributes checks to taxing districts
- All other disbursements checks prepared by employee are examined by the Sheriff for proper documentation (Refunds, Interest)
- The Sheriff mails disbursements
- The Sheriff or someone independent of the Sheriff's Tax Office prepares bank reconciliation

Sheriff's Response:

Okay.

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

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Members of the Menifee County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Menifee County Sheriff's Settlement - 2000 Taxes as of July 10, 2001, and have issued our report thereon dated September 13, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Menifee County Sheriff's Settlement - 2000 Taxes as of July 10, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Menifee County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 13, 2002

